

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Municipal Facilities Revolving Loan Fund
Department of Environmental Quality
State of Louisiana
Baton Rouge, Louisiana

June 10, 2002



Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Financial Statements and
Independent Auditor's Reports
As of and for the Year Ended June 30, 2001**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

June 18, 2002

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Financial Statements and
Independent Auditor's Report
As of and for the Year Ended June 30, 2001

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May 14, 2002

Independent Auditor's Report
on the Financial Statements

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana**

We have audited the accompanying financial statements of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund, as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the Municipal Facilities Revolving Loan Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the financial position and results of operations and cash flows of the Municipal Facilities Revolving Loan Fund. These statements are not intended to present fairly the financial position of the State of Louisiana, or the Louisiana Department of Environmental Quality, and the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund as of June 30, 2001, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Audit Report, June 30, 2001**

In accordance with Government Auditing Standards, we have also issued our report dated May 14, 2002, on our consideration of the Municipal Facilities Revolving Loan Fund's internal control over compliance with certain laws and regulations and our tests of compliance with these laws and regulations. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report considering the results of our audit.

Respectfully submitted,


Daniel G. Kyle, CPA, CFE
Legislative Auditor

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**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

Balance Sheet, June 30, 2001

ASSETS

Current assets:

Cash in state treasury (note 2)	\$99,826,017
Receivables - due from others (note 3)	1,501,560
Total current assets	<u>\$1,314,075</u>

Long-term loans receivable (note 4)	<u>\$14,896,526</u>
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TOTAL ASSETS **\$246,213,586**

LIABILITIES AND FUND EQUITY

Current liabilities - accounts payable

and accrued expenses **\$62,900**

Fund Equity:

Contributed capital:

Environmental Protection Agency (note 5)	\$86,717,414
State of Louisiana (note 6)	<u>\$6,753,580</u>

Retained earnings - unreserved (note 6) \$26,778,587

Total Fund Equity **\$119,250,581**

TOTAL LIABILITIES AND FUND EQUITY **\$246,213,586**

The accompanying notes are an integral part of this statement.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Revenues, Expenses, and
Changes in Retained Earnings
For the Year Ended June 30, 2001**

OPERATING REVENUES

Interest earned on loans receivable	\$0,004,824
Interest earned on cash in state treasury	<u>2,918,021</u>
Total operating revenues	<u>\$2,922,845</u>

OPERATING EXPENSES

Administrative expenses	<u>758,686</u>
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NET INCOME	7,863,889
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RETAINED EARNINGS AT BEGINNING OF YEAR	<u>22,128,288</u>
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RETAINED EARNINGS AT END OF YEAR	<u>30,779,887</u>
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The accompanying notes are an integral part of this statement.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND**

**Statement of Cash Flows
For the Year Ended June 30, 2001**

Cash from operating activities:		
Cash received from customers	\$5,366,713	
Cash received from interest on cash in state treasury	2,919,021	
Cash payments to suppliers for goods and services	(120,488)	
Cash reimbursements for employee services	(800,100)	
Loans for construction	<u>(8,176,260)</u>	
Net cash provided (used) for operating activities		<u>(\$860,028)</u>
Cash flows from capital and related financing activities		
Capital contributions		<u>14,819,014</u>
Net increase in cash and cash equivalents		14,158,946
Cash and cash equivalents at beginning of year		<u>45,880,971</u>
Cash and cash equivalents at end of year		<u>\$59,820,017</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income		\$7,890,588
Changes in assets and liabilities:		
Decrease in receivable	(\$62,876)	
Increase in loans receivable	(9,960,882)	
Decrease in accounts payable and accrued expenses	(3,800)	
Total adjustments		<u>(10,023,612)</u>
Net cash provided (used) by operating activities		<u>(\$860,028)</u>

The accompanying notes are an integral part of this statement.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**

Notes to the Financial Statements
For the Year Ended June 30, 2021

INTRODUCTION

The Louisiana Department of Environmental Quality (DEQ) is a department of the State of Louisiana. DEQ was created in accordance with Title 30, Chapter 11 of the Louisiana Revised Statutes of 1950 as a part of the executive branch of government. DEQ is charged with environmental protection within the State of Louisiana.

The Municipal Facilities Revolving Loan Fund (MFRLF) was established pursuant to Title VI of the Federal Water Quality Act of 1967 (the Act). The MFRLF Program presently operates under Louisiana Revised Statutes (R.S.) 30:2079-2086. These statutes establish a state revolving loan fund capitalized by federal grants (Capitalization Grants for State Revolving Funds Programs, CDFIA 80-458), by state funds when required or available, and by any other funds generated by the operation of the clean water revolving loan fund. DEQ is authorized to engage in activities regarding the sums on deposit in, credited to, or to be received by the state revolving loan fund. The Financial Services, Environmental Technology, and Environmental Evaluation divisions within DEQ are responsible for the operations of the MFRLF Program in the State of Louisiana. The divisions provide assistance to municipalities in the development, financing, and implementation of wastewater treatment management plans and plants. Engineering oversight, design review, and inspection services are provided by the Environmental Technology Division; environmental assessment services are provided by the Environmental Evaluation Division; and plant management and financial services are provided by the Financial Services Division on eligible wastewater treatment projects. All efforts are directed toward improving water quality by assisting communities in providing wastewater treatment processes that meet established effluent limits and achieve the goals of the Clean Water Act.

The MFRLF does not have any full-time employees. However, the time spent on the MFRLF by employees of the department is captured and the MFRLF subsequently reimburses DEQ for salaries and benefits and other operating expenses of the fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

Governmental Accounting Standards Board (GASB) Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The accompanying financial statements represent activity of a fund of the State of Louisiana that is administered by DEQ, a department within state government. The MFRLF is part of the primary government of the State of Louisiana and is reported as an enterprise fund within the State of Louisiana's general purpose financial statements.

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

B. FUND ACCOUNTING

The MFRLF uses an enterprise fund (proprietary fund) to report on its financial position and results of operations. The enterprise fund accounts for the activities relative to making and collecting loans for the planning, design, construction, and rehabilitation of wastewater treatment facilities for the various municipalities within the State of Louisiana.

C. BASIS OF ACCOUNTING

The proprietary fund is accounted for using a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operations of this fund are included on the balance sheet. The MFRLF uses the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized at the time the liabilities are incurred.

Under the provisions of GASB Statement No. 30, the MFRLF follows the pronouncements of the GASB and has elected not to follow Financial Accounting Standards Board guidance issued subsequent to November 30, 1989.

D. BUDGETS AND BUDGETARY ACCOUNTING

The MFRLF is budgeted annually by the Louisiana Legislature through the Ancillary Appropriations Act. The Ancillary Appropriations Act (Act 2 of the 2000 Second Extraordinary Session) authorized expenditures of \$61,136,088 for the MFRLF for fiscal year 2000-2001 and allows the fund to retain resources to fund future loans and eligible program activities. Because the fund is an enterprise fund, a budgetary comparison is neither required nor presented in the financial statements.

E. LOANS RECEIVABLE

The MFRLF is operated as a direct loan program. The program is one that provides loans and other financial assistance to municipalities (cities, towns, political subdivisions) for the purpose of constructing publicly owned treatment works, implementing nonpoint source pollution management programs, and developing and implementing estuary conservation and management plans.

The program lends federal and state monies directly to municipalities. The federal share is 50% and requires a state matching share of 25%. Recycling of principal and interest repayments from borrowing municipalities allows the program to operate in perpetuity, thereby benefiting other municipalities wishing to borrow in the future. Borrowers pay principal and interest directly to the loan program, and all monies are deposited directly to the program. Principal repayments can only be used to make additional loans to municipalities. Interest earnings on investments and loans can be used to make

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)**

additional loans. In addition, with Environmental Protection Agency (EPA) approval, interest earnings on investments and loans are used to pay off revenue bonds sold to capitalize the program by providing state matching funds.

The loans made by the MFRLF must be made at or below market interest rate with a repayment period not exceeding 20 years plus an interim construction-financing period. The current loan rate is 3.40% interest for new sewer construction/sewer system rehabilitation projects. Several loans have been made at higher interest rates and the program has the ability to change its interest rates as necessary.

As evidence of its obligations to pay principal and interest on the loans, each borrower must have in place or establish a dedicated revenue source for repayment of the loan. Collections of the revenue source dedicated to repayment of the loan must be equal to 133% of the loan amount for sales tax revenues, 125% for sewer user fees or ad valorem taxes, or 100% for general obligation bonds. Each loan recipient is also required to set up a debt service reserve fund equal to one year's principal and interest for the purpose of paying principal and interest should the dedicated revenues be insufficient for that purpose.

Because of the reserve requirements and the absence of any delinquent loans, there is no provision for uncollectible amounts.

F. CONTRIBUTED CAPITAL

The funds drawn from the EPA capitalization grants authorized by Title VI of the Federal Water Quality Act of 1967 and the state matching funds are recorded as contributed capital.

3. CASH

As reflected on Statement A, the MFRLF has cash totaling \$89,025,617 at June 30, 2004. All monies of the fund are deposited with the State Treasurer's Office. Cash balances are held and controlled by the state treasurer and are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by accounting principles generally accepted in the United States of America are included within the State of Louisiana's financial statements.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

3. DUE FROM OTHERS

As shown on Statement A, the MFTLF has a total due from others of \$1,531,953 and is comprised of the following:

Due from the federal government	\$53,459
Due from municipalities	<u>1,478,521</u>
Total due from others	<u>\$1,531,953</u>

The \$1,478,521 due from municipalities is interest due on loans.

4. LOANS RECEIVABLE

The MFTLF makes loans to qualified political subdivisions of the State of Louisiana for projects that meet the eligibility requirements of the program. Loans are financed by capitalization grants, state match, and revolving funds. Effective interest rates on loans vary between 2.45% and 5%, and are generally repaid over 20 years starting within one year after the project is completed. Details of loans receivable as of June 30, 2001, are as follows:

Completed projects	\$90,673,554
Projects in progress	<u>\$4,358,872</u>
Total	<u>\$95,032,426</u>

Loans will mature at various intervals through June 1, 2023. The scheduled principal payments on loans maturing in subsequent years are as follows:

	Completed Projects	Projects in Progress	Total
Year ending June 30:			
2002	\$9,885,486	\$4,187,800	\$9,352,486
2003	5,218,047	5,378,800	10,881,047
2004	5,449,595	5,603,800	11,251,895
2005	5,845,281	6,073,800	11,958,281
2006	5,742,888	6,248,800	11,887,888
Thereafter	<u>53,473,085</u>	<u>86,721,873</u>	<u>180,148,589</u>
Total	<u>\$90,673,553</u>	<u>\$4,358,873</u>	<u>\$95,032,426</u>

MUNICIPAL FACILITIES REVENUE LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Encumbered Balances

Over 50% of cash and undrawn capitalization grants are encumbered as follows:

<u>Funds Encumbered</u>		
1. Cash and cash equivalents		\$50,655,917
2. Undrawn Capitalization Grants		
1999 Grant	\$1,072,517	
2000 Grant	<u>14,751,877</u>	
Total undrawn grants		<u>15,824,394</u>
3. Total cash and undrawn grants		<u>\$76,048,211</u>
4. Loans in progress - Encumbered		\$45,371,087
5. Loans (4) as % of total (3)		59.66%

The Loans in Progress - Encumbered represents the projects that are under construction and have only drawn a portion of the total approved loan amount. This figure consists of the principal loaned less the outstanding loan balance less the principal repaid, if any.

Loans to Local Governments

As of June 30, 2001, the MPFLF had made loans to 10 local governments that, in the aggregate, exceeded or equaled \$4.5 million for each municipality. The outstanding balances of these loans represent approximately 66% of the total loans receivable as follows:

<u>Local Government</u>	<u>Authorized Loan Amount</u>	<u>Balance on Loans Outstanding</u>
St. Charles Parish	\$47,380,000	\$42,344,719
Monroe	27,590,000	2,408,482
Natchitoches	10,188,135	13,991,166
Lafayette	18,408,000	12,799,033
Kenner	12,890,877	10,256,000
Bogalusa	12,500,000	11,151,769
Copeland	10,000,000	4,897,927

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA**
Notes to the Financial Statements (Continued)

<u>Local Government (Cont.)</u>	<u>Authorized Loan Amount</u>	<u>Balance on Loans Outstanding</u>
New Iberia	\$10,000,000	\$7,841,410
Bossier City	9,978,190	8,875,142
Bastrop	7,500,000	8,040,000
Concordia	7,500,000	8,845,000
Crowley	7,500,000	4,011,838
Waller	6,900,000	3,795,476
Jennings	6,500,000	4,814,310
Rayne	6,400,000	5,420,965
Springhill	6,275,384	5,089,000
Caddo-Bossier Port Commission	6,250,329	5,015,000
Leesville	4,710,000	3,710,000
Ruston	4,637,282	3,280,000
Total	<u>\$230,685,858</u>	<u>\$158,740,658</u>

5. LONG-TERM OBLIGATIONS

The MFRLF is allowed by statute to incur indebtedness but not allowed to issue bonds directly. To provide state matching funds when direct cash appropriations were not available, DEQ received approval from the EPA to borrow matching funds. The secretary of DEQ, through a Resolution by Executive Order pursuant to R.S. 36:207B et seq., was authorized, for state matching purposes, to borrow through the issuance of the department's note to the Louisiana Public Facilities Authority (LPFA), a conduit issuer of serial bonds for the department and the state. The serial bond issue was called Louisiana Public Facilities Authority Taxable Revenue Bonds (Municipal Facilities Revolving Loan Fund Match Project) Series 1995. This indebtedness was secured solely from the pledge of a portion of the revenues received by the department from loans made by the program.

The LPFA is a public trust and public corporation organized and existing for the benefit of the State of Louisiana. In accordance with the \$15,000,000 Loan Agreement between the LPFA and the department and in accordance with the \$15,000,000 Indenture of Trust between the LPFA and First National Bank of Commerce, the trustee, the LPFA issued serial bonds for \$15,000,000 and was repaid the \$15,000,000 by June 30, 1992. As of June 30, 2001, \$14,854,221 has been generated for matching fund purposes by the issuance of these serial bonds. Future serial bonds may be issued through LPFA as needed for future state matching purposes. No liability exists at June 30, 2001.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

**6. CONTRIBUTED CAPITAL AND
RETAINED EARNINGS**

The MFRLF has been awarded 13 federal grants from the EPA. These funds are available through the EPA's Automated Clearing House Payment System (ACH). The grants are authorized by Title VI of the Federal Water Quality Act of 1987 and require matching funds from the state. As of June 30, 2001, the EPA has awarded grants of \$205,541,008 to the state, of which \$189,717,414 has been drawn for loans and administrative expenses. The state has provided matching funds of \$41,407,507. The following summarizes the grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

Year	Grant Awarded	Cumulative Drawn as of June 30, 2000	Cumulative Drawn as of June 30, 2001	Cumulative Drawn as of June 30, 2001	Remaining Grant Dollars Available as of June 30, 2001
1986	\$10,000,000	\$10,000,000		\$10,000,000	
1989	10,000,700	10,000,700		10,000,700	
1990	10,700,204	10,700,204		10,700,204	
1991	22,000,714	22,000,714		22,000,714	
1992	21,200,240	21,200,240		21,200,240	
1993	21,020,174	21,020,174		21,020,174	
1994	13,110,070	13,110,070		13,110,070	
1995	13,040,200	13,040,200		13,040,200	
1996	22,175,297	22,175,297		22,175,297	
1997	6,620,480	6,620,480		6,620,480	
1998	22,100,120	21,084,104	\$1,000,000	22,100,120	
1999	14,804,004	14,794	10,719,040	13,723,197	\$1,070,807
2000	14,701,071		2,194	2,194	14,701,077
Total	<u>\$205,541,008</u>	<u>\$179,895,240</u>	<u>\$10,819,194</u>	<u>\$189,717,414</u>	<u>\$20,524,194</u>

The state has provided its required matching share of federal grant awards through appropriations of General Fund and state capital outlay funds. Cash contributions from General Fund and capital outlay appropriations have totaled \$23,793,580. An additional cash contribution of \$3,000,000 was made from Tobacco Settlement proceeds in fiscal year 2000. In addition, part of the required matching share has been provided through the issuance of Revenue Match Bonds secured by revenue of the fund. Beginning in fiscal year 1996, revenue bonds of \$15,000,000 were authorized. As of June 30, 2001, bonds totaling \$10,000,000 have been issued and repaid resulting in net proceeds of \$14,604,071 being used as state matching funds. As of June 30, 2001, matching contributions are as follows:

**MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)**

	Cumulative State Match as of <u>June 30, 2020</u>	<u>Adjustment</u>	<u>2020 Contribution</u>	Cumulative State Match as of <u>June 30, 2021</u>
State cash contribution	\$26,752,588			\$26,752,588
Revenue bond proceeds	<u>16,854,802</u>	<u>\$128</u>		<u>16,854,720</u>
Total	<u>\$43,607,390</u>	<u>\$128</u>	<u>None</u>	<u>\$43,607,500</u>
Components of Contributed Capital and Retained Earnings				<u>Amount</u>
Contributed capital:				
Environmental Protection Agency				\$160,717,414
State of Louisiana match				<u>25,752,588</u>
Total contributed capital				<u>\$186,470,002</u>
Retained earnings - unrestricted:				
Cumulative loan interest earnings				25,261,184
Cumulative treasury interest earnings				<u>5,862,050</u>
Accruals for disposal				265,011
Cumulative administrative expenses				<u>(5,588,386)</u>
Cumulative bond costs				<u>(265,178)</u>
Total retained earnings				<u>25,795,681</u>
Contributed Capital and Retained Earnings				<u>\$212,265,683</u>

7. ADMINISTRATIVE EXPENSES AVAILABLE

Four percent of the federal grant amounts awarded by the EPA are allocated to fund the administrative cost of operating the revolving loan program. The following schedule presents each grant, the 4% amount allocated from each grant, the cumulative expenses incurred and drawn in administering the program, and the amount available to be drawn from the EPA for future administrative expenses.

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Notes to the Financial Statements (Continued)

Federal Grant Year	Available 4% Certificates	Fiscal Year	Expenditures Incurred	Available for Administration
1998	\$488,000			\$488,000
1999	414,761	1999	\$1,607	683,154
1999	428,010	1999	71,632	1,370,522
1999	800,429	1999	37,324	2,178,607
1999	854,373	1999	487,804	2,582,508
1999	845,167	1999	529,038	2,876,343
1999	824,815	1999	680,811	2,882,787
1999	541,089	1999	582,198	2,882,187
1999	887,371	1999	585,897	2,882,391
1999	272,810	1999	620,848	2,744,261
1999	857,695	1999	724,815	2,987,551
1999	262,783	1999	640,648	2,688,988
2000	908,186	2000	785,451	2,483,272
2001		2001	790,656	1,745,316
Totals	\$8,271,686		\$8,608,348	

9. RISK MANAGEMENT

Losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund operated by the Office of Risk Management, the agency responsible for the state's risk management program, or by legislative appropriation. The MFRLF has no losses outstanding as of June 30, 2001.

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133**

The following pages contain a report on compliance with requirements applicable to the Capitalization Grants for State Revolving Funds Program and on internal control over compliance with the requirements applicable to the program, as required by Government Auditing Standards, issued by the Comptroller General of the United States, and by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.



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May 14, 2002

Report on Compliance With Requirements Applicable to the Capitalization
Grants for State Revolving Funds Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133

MUNICIPAL FACILITIES REVOLVING LOAN FUND
DEPARTMENT OF ENVIRONMENTAL QUALITY
STATE OF LOUISIANA
Baton Rouge, Louisiana

Compliance

We have audited the compliance of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to the Capitalization Grants for State Revolving Funds Program (CFDA 66-458) for the year ended June 30, 2001. Compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program is the responsibility of the Louisiana Department of Environmental Quality's management. Our responsibility is to express an opinion on the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and the Environmental Protection Agency's Clean Water State Revolving Loan Fund Audit Guide. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance, with the types of compliance requirements referred to above that could have a direct and material effect on the program, occurred. An audit includes examining, on a test basis, evidence about the Municipal Facilities Revolving Loan Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund's compliance with those requirements.

In our opinion, the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund complied, in all material respects, with the requirements referred to previously that are applicable to its Capitalization Grants for State Revolving Funds Program for the year ended June 30, 2001. However, the results of our auditing procedures disclosed the following instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133.

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Subrecipient Audit Reports Not Monitored

The Department of Environmental Quality (DEQ) did not adequately monitor subrecipient audit coverage to ensure compliance with federal regulations. Office of Management and Budget (OMB) Circular A-133 requires pass-through entities, such as DEQ, to ensure that subrecipients expending \$300,000 or more in federal awards have met the audit requirements of the circular. Interviews with DEQ management disclosed that DEQ did not have a master listing of all subrecipients for the Capitalization Grants for State Revolving Funds Program (CPDA 66-458) that were required to receive audits under the provisions of OMB Circular A-133. Furthermore, an internal document titled "Annual Financial Review" that requires reviews of audited financial statements of subrecipients had not been completed for any subrecipients for the year under audit. DEQ could not supply any of the four audit reports selected for review. When obtained from an alternative source, legislative auditors noted that one of the subrecipients had expended federal funds in excess of \$300,000, but the independent audit performed did not comply with the provisions of OMB Circular A-133. The subrecipient that did not obtain a single audit expended \$1,873,104 passed through DEQ. The federal participation in this amount is \$1,218,883, which is questioned cost.

These conditions occurred because insufficient emphasis was placed on monitoring of subrecipients. Failure to determine whether subrecipients have received appropriate audit coverage increases the risk that program funds will not be expended in accordance with applicable state and federal laws and regulations.

Management should develop procedures to ensure that all applicable subrecipients obtain proper audit coverage as required by OMB Circular A-133. Management concurred with the finding but disagrees with the classification of loan disbursements as questioned costs (see Appendix A, pages 1-3).

Internal Control Over Compliance

The management of the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to this federal program. In planning and performing our audit, we considered the Louisiana Department of Environmental Quality - Municipal Facilities Revolving Loan Fund's internal control over compliance with requirements that could have a direct and material effect on its Capitalization Grants for State Revolving Funds Program (CPDA 66-458). In order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to this federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We consider the reportable condition described previously to be a material weakness.

This report is intended solely for the information and use of management of the Louisiana Department of Environmental Quality and the federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

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Appendix A

Management's Corrective Action Plan and Response to the Finding and Recommendation



State of Louisiana
Department of Environmental Quality



ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED

ALL INFORMATION
CONTAINED HEREIN IS

December 10, 2004

Dr. Donald G. Kyle, CPA, CFE
Legislative Auditor
P.O. Box 94997
Baton Rouge, LA 70804-9997

RE: Subrecipient Audit Reports Not Monitored

Dear Dr. Kyle:

The Department of Environmental Quality agrees with the finding that the audit reports of borrowers were not monitored, however disagrees with the classification of loan disbursements as "questioned cost".

The department has developed and implemented a procedure to ensure that monitoring of borrowers' audit reports takes place. A master list has been established and will be maintained to document the receipt of required audit reports. Staff involved with the Municipal Facilities Financial Section will be responsible for monitoring and reviewing this report and any findings.

The department disagrees with the classification of loan disbursements as "questioned cost" due to the lack of audit monitoring. This designation implies that such payments may not be valid or proper. All loan disbursements are made upon submission of a reimbursement request, including copies of paid invoices, approved by designated officials of the municipality and its oversight engineer. EDQ personnel then compare the request to a project budget to ensure that costs are allowed. EDQ engineers also review the requests to ensure that the construction activities are according to a project plan, which must be submitted prior to the loan approval. EDQ engineers also make periodic site visits during construction to monitor actual progress.

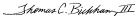


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It should also be noted that a Revolving Fund loan is not a subsidy. These are loans that must be repaid. A bond issued by the borrower also secures these loans. The loan provisions require that a dedicated source of revenues, such as fees or sales taxes, be designated as a source of funds to repay the loan. Borrowers are periodically invoiced for interest, fees, and repayments. Invoices to borrowers for fees, interest, or repayments are monitored. Any overdue amounts result in immediate inquiries, with follow-up contact if necessary.

If any additional information is required, please do not hesitate to contact this office.

Sincerely,



Thomas C. Bishop III
Undersecretary